

February 10, 2003

***CITIZENS' TASK FORCE ON CHARGERS ISSUES***  
**MINUTES for meeting of**  
**February 6, 2003**

**Meeting held at:**

**Council Chambers  
202 C Street, 12<sup>th</sup> floor  
San Diego, CA 92101**

**Mailing address is:**

**City of San Diego  
Special Projects Administration  
1010 Second Ave, Suite 500, MS 658  
San Diego, CA 92101**

**ATTENDANCE:**

**Members Present**

David Watson  
Nikki Clay  
Tim Considine  
Pepper Coffey  
Tom Fat  
Bruce Henderson  
Karen Heumann  
Bill Largent  
Joe Martinez  
Geoff Patnoe  
Patti Roscoe  
Ron Saathoff  
Len Simon  
Jeff Smith

**Members Absent**

Cassandra Clady

**Staff Present**

Libby Coalson  
Les Girard  
Bruce Herring  
Dan Barrett  
John Mullen  
Stephen Shushan

**CALL TO ORDER**

Item 1: Citizens' Task Force on Chargers Issues Meeting called to order at 6:40.

Item 2: Roll Call – Libby Coalson

**AGENDA ITEMS**

Item 3: Task Force minutes of January 30, 2003 approved unanimously with one change to correct Len Simon's name on members absent listing.

Item 4: Chair comments – no comments

Item 5: Task Force comments –

Roscoe – has had many questions asked of her regarding Tagliabue's remarks made when he was in San Diego for the Super Bowl. When he said that there wouldn't be a Super Bowl without a new stadium, he was reflecting the NFL and some of the owners, but not all. His remarks that a Super Bowl shouldn't have been in San Diego this year were rude and insensitive – to volunteers, the residents who were great hosts, to the law

enforcement folks who worked for months in advance to be sure we were safe. Without the support of Spanos and other owners, it wouldn't have been here. Worked hard to be sure it was flawless. Hopes we work hard to have more opportunities for Super Bowls in the future.

#### Item 6: Committee Reports

Henderson – three points: 1) concerned that the response to the success of the Super Bowl be reflected in the findings of the Facilities & Redevelopment Committee. 2) We haven't taken seriously enough the pollution problem on the Qualcomm site. Haven't addressed the fact that the health studies assumed the site will be capped and the studies would have to be redone if there were to be development on the site. Need to be concerned about that. 3) Has impression that there is still a great deal of confusion about the economic impact in a community of building facilities like stadiums. Peter Hall from CCDC spent time expressing his view of the economic impact of building a stadium downtown. There are not any peer-reviewed economic studies that support the conclusion that building a stadium generates more revenue or helps cause development. Takes issue. Not apparent that the construction of the new ballpark downtown is causing the sort of development seen downtown.

Facilities & Redevelopment – held a joint meeting of Facilities & Redevelopment and the Finance committees to discuss a possible downtown site. CCDC came to the meeting to provide information and received an overview of Qualcomm vs downtown from Keyser Marston.

Saathoff – more research would have to be conducted before coming to any conclusion about an alternative site. Downtown bears more scrutiny. Some exploration would need to be completed, and some issues that would need to be resolved.

Clay – elements from her committee would need to be discussed. Several approaches, each with several possible variations:

- 1) enforce the current contract – 1) river enhancement, community center, remove some parking or, b) phase development, enforce the contract for 10 years then do some phased development, or c) sports complex, ballfields, etc
- 2) renovate the current stadium – with redevelopment, without redevelopment, or maybe a renovation with only \$50m
- 3) proposal the Chargers provided – could be variations on this
- 4) offsite stadium – redevelop the whole stadium site and put a stadium on another site, such as downtown

Finance – did meet separately as Finance Committee, heard an overview of some of Mr. Barrett's analysis that is being presented today.

#### Item 7: Public Comment –

Rob Luden – new to San Diego, served on two committees in Phoenix that dealt with public funding of a stadium for the Arizona Cardinals. Wants to make people aware. He has heard a lot about the funding and feasibility. More fundamental question is whether should be using taxpayer money for an NFL stadium. Answer should be "no". In Phoenix, this was voted on twice and failed. Why – the team would have gotten naming rights. Team is putting up shadow money. Get signage inside the facility. Get concessions, get parking, and receive non-game day parking revenue. Caveat was that income taxes were to be re-funneled back into the stadium. NFL has a blueprint of how to push a new stadium forward. Hopes the Task Force doesn't ask Council to put it to a vote. Pro-stadium forces will outspend public 3 to 1.

Scott McLachlan – need to make private subsidies. Willing to put up \$100 toward a private donation fund. Could get enough people together to reach \$10m to be a good show of force. Wants to keep the Chargers here. Would like to see it comprised of a lot of individuals, capped at \$100 each, not corporations.

Mike Aguirre – 10 years from now, the Task Force is going to judge themselves based upon how much they stepped out of their personal world and did something for the community. Not a special interest committee, but a citizens task force. Have to try to see if can rise above any one point of view and have a sum that is greater than the individual parts. Why a problem? Because Spanos decided to create a problem. There isn't a problem, they have plenty of money, but decided they would make an issue of it this year since the Super Bowl was coming. If Chargers decide by April 29<sup>th</sup> not to trigger, nothing will happen.

Item 8: presentation by Barrett Sports Group on Proposed Stadium: *see presentation on web*

The report is not a recommendation!

Spent a great deal of time on the report. Put together a list of financing alternatives.

Have to adjust the market to account for the number of teams in a market – NY has 9+. San Diego has a high ratio of people for available seat.

General conclusion – on an unadjusted basis, the San Diego market would appear to be smaller or below average in most categories, rank in the 3<sup>rd</sup> quartile. Between 18-22 of the 32 teams. When adjust the information to be comparable to other markets, the Padres and Chargers are at a competitive advantage as only have two franchises in the market place.

This market cannot support development of a new stadium as long as Qualcomm is operating. Have assumed for analytical purposes that Qualcomm would not operate competitively or would be demolished if a new stadium were opened.

Qualcomm is one of the busiest multi-purpose facilities in the Country – due to Padres playing 81 games a year there. Trend now is to go to separate facilities for those tenants. Qualcomm also has other events including the Aztecs, Gold Coast Classic, and the Holiday Bowl. There are a limited number of events that can have attendance level that would require the use of Qualcomm as a venue.

Chargers historical performance – typically, NFL teams don't have as high a no-show factor as Chargers have, and due to the ticket guarantee and would go away if that provision were no longer in effecting a new stadium.

Results of the studies suggest a smaller facility, 65-68,000 seats and designed to accommodate the Super Bowl.

On an operating basis, before the ticket guarantee and the debt service, stadium makes money in range of \$1-2m/year.

Concessionaire payment that would have to be made in 2006-2007 if got out of the contract is approximately \$2-3m

Capital improvements tend to get neglected on these facilities, but it is important to plan for that up front.

For economic analyses, Barrett Sports Group (BSG) tries to use commonly accepted industry standards and make adjustments to direct spending to take into account the high level of player salaries and the fact that they don't usually live in town. Doesn't take a position on economic impact, just uses common practices.

\$70-75m direct new spending

The multiplier called the SAM multiplier used is more conservative.

The Chargers organization, not the Spanos family, gave over \$1m to local charities, city and county-wide. Couldn't get charitable contribution information on the Spanos family.

42% of the season tickets are in the City.

#### Q&A –

Pgs 26 and 27 of the power point – the difference is that the ticket guarantee revenue is pulled out.

Have to make assumptions about lease terms. If the Chargers put in a contribution of \$200m, \$68m from G-3, then \$132m from Chargers would cost \$11m/year, so they would have \$5m net operating profit. There are other sources they could use to reduce their debt amount of \$132m – such as PSLs. There would be no out-of-pocket expense on a gross basis using the numbers presented.

Simon – rent on the analysis is zero. Is that because BSG thinks that there might be a deal or because leaving it as a number to be plugged in? *Used the proposal that was provided by the Chargers.* All based on ticket sale assumptions used before? *Yes, looked at historical data.*

Size of facility – why 65-68,000 seats? *BSG suggested this size because of the historical demand in San Diego. Chargers haven't been supported to the size of 70-75,000 seats. Thinks that after ticket guarantee, team playing record, blackouts, etc, that 65-68,000 is the right size.*

If going to build a stadium for 65,000, why wouldn't build one for 70,000 to give upside of potential additional revenue in event that had good team or size of facility supported? *The design of the facilities allows for it. Trying to generate demand and scarcity. If everyone knows they can get a ticket on game day, there will be fewer season ticket holders. The NFL encourages teams to sell out so they can have the games televised.*

Henderson – on page 26, numbers for new stadium are in 2002 \$? *Did it to compare apples to apples – used current year \$ rather than inflate them.* On what basis can arrive at the conclusion that can get \$13m in additional revenue? Why assume substantial price increase? *A number of things. A lot of it has to do with the mechanics of the deal. They don't get naming rights right now, and BSG built that in. Part of it is ticket revenues – there is a honeymoon period, club seats and luxury suites would generate more. Haven't sold out lately for the performance of the team, the location and the quality of suites, and the economy. The location and quality of club seats and luxury suites will result in more corporations buying more expensive suites.* Qualcomm – somebody has to pay them or Qualcomm loses out on the money they put in for the long-term naming rights? *Qualcomm has the first right of refusal for naming rights if there is a new stadium in the future or they get a pro-rata reimbursement of their investment.*

On this chart on page 26, no reflection of cost of naming rights – getting out early – or cost of paying off outstanding debt? *Has been identified on following page.*

Concession income – *is a 40% share of the gross, more than what is currently being paid as Volume Services American put in equipment.*

Probably 75-\$80m of additional cost to pay off debt, concession, naming rights that isn't included in the chart on page 26.

Utilized a 50, 75, and 100 mile ring. 75 gets you to Pendleton and 100 into South orange county. Were there significant numbers of season ticket holders outside of the County? *Not sure, 42% in City, didn't analyze where exactly others were.* Would justify a county-wide vote.

Heumann – if LA were to pick up another team, how would that affect our market's ability to support our team? *The San Diego market is really a stand alone, isolated market. Thinks there would be limited impact to San Diego if LA got another team.*

How get to the naming right amount? *It is hard to estimate. Historically some huge amounts of money, but others are having difficulty. The \$2.75m number used would be comparable in present value to what Qualcomm paid initially.* The ability to host a Super Bowl would impact the naming rights? *Yes, and if we were to move forward, he would recommend negotiating to get a commitment for future Super bowls.*

Within the County there is such a diverse amount of activities, how calculate leakage? *Leakage out of the region would be small. Accounted for leakage outside the city, but in the region. Used an input-output model used by Minnesota Inplan Group which is recognized as a leader in the area.*

Fat – Great job on report!! Pg. 27, follow-up. In negotiating with the Chargers, have a lot more leeway than would have imagined given the \$17m of net revenue? *Have to look at the bottom line, at the goal. Chargers have made the claim that they aren't economically competitive. Don't have full information so he can't really comment on it. If assume \$17m is net, and assume Chargers should take on x amount and it results in debt service and PSLs in the amount of \$17m, result is that the Chargers are in the same economic position as they are in now, result might be that they are back in the same position. Franchises have significant political pull.*

Considine – extraordinarily good presentation. Simply a stadium if operating today, increases net revenue to Chargers of \$17m? *yes. Doesn't take into account how would get the money or how to pay off outstanding debt? Yet. How secure is he in this number? Spent time looking at the Chargers information and other franchises. Fairly secure that this is a good number and have made a major assumption on the sentiment toward the team. Thinks generally appropriate, not overly conservative.*

Roscoe – report not only comprehensive, but also explained in a way that was understandable. Assumptions based on San Diego having a blackout policy? *Yes. SD would support luxury suites. Information the Task Force has received is that there aren't enough corporations to support them. Estimated suites at 100, not an extremely high number relative to other teams. Have tried to take into account the types of corporations in town. Low end of price, and mid-range in number. Suite inventory corresponds to the corporate base here. Have an above average number of corporations per available suite relative to other markets. Might be a little more difficult to gauge. Assume suites located sideline to sideline, vacant inventory now mostly in end-zone.*

Parking revenue – *assumed a lower number based on the Chargers proposal. Only 5,500 for revenue generated, didn't account for any sharing of the office space parking.*

Smith – no rent accounted for, and if the City contributes to the cost, there will be a revenue number to the City that will eat into the profit. What sort of number for return on investment? *No industry standard. Some*

*don't make sense from the franchise standpoint. Sometimes driven by other factors. Wouldn't look at this as a typical real estate deal. Look at leases throughout the country. Great job!*

Coffey – demographics – how might affect future attendance? Understands that NFL is targeting Hispanics so would anticipate more from across border. Median age? *Haven't accounted for anyone across the border. NFL is popular with younger folks.*

Martinez - \$70-75m in tv? *In common revenues, mostly tv. Outside the stadium, is in the economic impact study. There is a chart that outlines franchise revenues. Does the chart make them competitive? Thinks they indicated it would put them in the middle with the \$17m revenue. This would put them in the middle and successors wouldn't be here in 20 years? No comment*

Clay – other event revenues figured in, are they the same rents that the Holiday Bowl and Aztecs are paying today? *Assumed similar terms to current for existing users. Issue of luxury suites – 80% of the companies in San Diego have 100 employees or less. A \$90k suite is something that most folks won't be able to participate in. Could we come up with a model that might help figure this out? Other issue, talked on page 125 how the stadium would work. Want to hear language about joint use with Aztecs in the report. Talked about events that might be able to come into the stadium, check with Shushan about the future plans for getting additional events in.*

Watson – pg 2 of the presentation. Potential market support – *thinks an adequate level of support for a new stadium from a market perspective, certain things need to happen to make it stronger – level of income, economic base, people in town, there is the support. Econ impact - \$150m gross output, spending. Gross economic benefit to the City. One of the experts compared the economic benefit to WalMart – what does BSG think of this? Hasn't done anything related to WalMart so can't really compare.*

Item 9: Analysis of Chargers Proposal by Barrett Sports Group – *see presentation*

Need to take a look at the market demand to see what sort of development would be supported, not determine the development based upon what makes the project work financially.

Overall, Chargers pro forma in terms of bottom line wasn't significantly different, but were significant differences in the details.

Item 10: Analysis of Chargers Proposal by Keyser Marston (Jerry Trimble) *see presentation*

Just dealing with the real estate aspects of the proposal. Table 1 has the Chargers presentation on one page.

Chargers numbers were at a 10% discount rate. Numbers are escalated out, then brought back at the discount rate as identified.

All costs would be backed out of the revenues.

Watson – if use a conservative City/County IFD structure with a for-profit developer, the revenue is less than 1/3 of what the Chargers estimated. (Table 3, column D). *Have to deduct the base assessed value.*

Considine – Chargers representation of \$188m is reflective of what the Chargers say could be covered by a bond. The numbers are only at risk in the sense that the developer gets to achieve these types of developments. Bulk is property tax revenue. Developer risk is not apparent in these numbers. *Methods of financing. Need to consider options and see what the mechanism would be. An issue of risk would be for a*

*developer to pay all this and pay all the costs then repay with the increased sales tax and TOT, high level of risk.*

Issue of tax revenue from the development of the property itself – actual revenues generated by the City, none of them have risk to the City unless the projects aren't done. The only risk is the delay or if the projects aren't done. Flow of money to pay off bonds is being discounted assuming the risk that the City has to get the revenue. Would issue bonds at lower rate than 15-25%. Why discounting at 15% or 25%? *Have to consider how a development would be done. Private development would not be done by the City.* If going to build, the only issue for the City is that don't build or that it gets drawn out. Doesn't see how the risk built in from the City's point of view.

Patnoe – is there any scenario in which the Chargers proposal will pencil out? *Could be, but have only analyzed what they were given. If they have a cap or a limit to the amount they are going to put in, there are difficulties with this. Could increase the density on the development, but this would impact the environmental issues.* In what scenario do you see the Chargers proposal penciling out? *As a combination of what they have proposed so far and a financing mechanism. Would have to do some testing. Probably intensify development and have the Chargers contribute more.*

Saathoff – Chargers proposal given the Chargers assumptions does not generate enough revenue to pay the debt service on a \$200m bond. Under KMA's scenarios, it is even worse and there are insufficient revenues to pay the debt service. Can increase the density, sell more land, and look at a financing mechanism – *if Chargers are owners, willing to take the risk.* Unless another party steps up and is willing to take a risk.

Fat – tremendous shortfall between what they have and what is needed and only based on \$400m stadium, not including infrastructure, parking, etc. *That is correct.*

Simon – people have suggested that the Spanos family might be able to be the developer given that they are in the development business. *If willing to be the master developer of the private uses and City deeds or leases the land, and Spanos' assume all development and pre-development costs, might be able to close the gap*

Assume there is some risk no matter who develops it, economy is bad, would have a drag on the tax revenues. *City's risk could be limited, master developer would have total control, it could be structured that way.*

History of other cities getting multiple Super Bowls, contractually? Barrett - *In many cases the NFL has committed one Super Bowl. In the case of Raiders and Hollywood Park, talked about 2 Super Bowls but the deal never happened.*

Suggestions made that if City and Chargers were going to jointly build a new stadium, the City should ask for a commitment from the Chargers to have a reasonable number of moderately priced seats. History? Type of change to analysis? *There are cases where it has been addressed, can follow up.*

Henderson - Substantial portion of revenue in the proposal comes from TOT from the hotel. Is that revenue that would come to the City anyway without a new hotel? Stadium itself won't create the demand for the hotel. Is there any particular reason from a taxpayer point of view why would assign those revenues to this sight. *Issue of transfer. The market and financing for hotels may be almost self-correcting. When occupancies become high, you can finance it and it is needed. Almost self-correcting.*

Watson - Is there a demand for a hotel in Mission Valley – *there would be if the other land uses were there.*

Smith – the development costs and pro forma costs don't look like the Chargers put the land cost in. *Did not dig into the development costs and will check into it for Saturday.*

Watson – to summarize, the revenues overestimated and costs underestimated in the proposal.

Clay – at Facilities & Redevelopment, discussion about whether Chargers take all the risk. *Could make some assumptions, and check out what if Chargers take risk.* Ways to limit City risk, any ideas would be helpful.

Simon - Is there a way this pencils out – maybe Spanos development approach, maybe it would work out.

Thank you for work done in very short time.

Adjourned – 10:10

### **ADJOURNMENT**

Submitted by,

Libby Coalson  
Staff Representative